

**Lake City Health Care Center, LLC
Lake City, Tennessee**

**Cost Report and Resident Accounts
For the Period
July 1, 2001, Through June 30, 2002**

Arthur A. Hayes, Jr., CPA, JD, CFE

Director

Gregg S. Hawkins, CPA

Assistant Director

Donna Crutcher, CPA

Audit Manager

Robert A. McCloud, CFE

In-Charge Auditor

Julie Rogers, CPA

Alla Baranova

Melissa Wilson

Auditors

Amy Brack

Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 401-7897

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

June 17, 2004

The Honorable Phil Bredesen, Governor

and

Members of the General Assembly

State Capitol

Nashville, Tennessee 37243

and

Mr. Manny Martins, Deputy Commissioner

Bureau of TennCare

729 Church Street, Fifth Floor

Nashville, Tennessee 37247

Ladies and Gentlemen:

Pursuant to Section 71-5-130, *Tennessee Code Annotated*, and a cooperative agreement between the Comptroller of the Treasury and the Department of Finance and Administration, the Division of State Audit performs examinations of nursing facilities participating in the Tennessee Medical Assistance Program under Title XIX of the Social Security Act (Medicaid).

Submitted herewith is the report of the examination of the Medicaid cost report of Lake City Health Care Center, LLC, Lake City, Tennessee, for the period July 1, 2001, through June 30, 2002, and patient accounts for the period July 1, 2001, through June 30, 2002.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/pn
04/044

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report
Lake City Health Care Center, LLC
Lake City, Tennessee
Cost Report and Resident Accounts
For the Period July 1, 2001, Through June 30, 2002

FINDINGS RECOMMENDING MONETARY REFUNDS

Improper Billing of Resident Hospital Leave Days and Revenue

Lake City Health Care Center, LLC improperly accumulated and billed the Medicaid program for 2,065 hospital leave days when the facility was under 85% occupancy. As a result of the improper billing of noncovered hospital leave days, Lake City Health Care Center, LLC should refund \$152,379.52 to the State of Tennessee (page 6).

Nonallowable Expenses Included on the Cost Report

The facility reported \$1,115.58 of unsupported expenses on its cost report. The adjustments to

allowable expenses decreased the facility's reimbursable rate by \$0.04 per day. The facility should refund \$1,337.68 to the State of Tennessee (page 7).

FINDINGS NOT RECOMMENDING MONETARY RETURNS

Deficiencies in Accounting for the Resi- dent Trust Fund

Lake City Health Care Center, LLC failed to take adequate measures to safeguard patient trust. The facility lacked support for withdrawals or proper authorization from the trust funds (page 8).

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**Lake City Health Care Center, LLC
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INTRODUCTION

PURPOSE AND AUTHORITY OF THE EXAMINATION

The terms of contract between the Tennessee Department of Finance and Administration and the Tennessee Comptroller's office authorize the Comptroller to perform examinations of nursing facilities that participate in the Tennessee Medicaid Nursing Facility Program.

Under their agreements with the state and as stated on cost reports submitted to the state, participating nursing facilities have asserted that they are in compliance with the applicable state and federal regulations covering services provided to Medicaid-eligible recipients. The purpose of our examination is to render an opinion on the nursing facilities' assertions that they are in compliance with such requirements.

BACKGROUND

To receive services under the Medicaid Nursing Facility Program, a recipient must meet Medicaid eligibility requirements under one of the coverage groups included in the *State Plan for Medical Assistance*. The need for nursing care is not in itself sufficient to establish eligibility. Additionally, a physician must certify that recipients need nursing facility care before they can be admitted to a facility. Once a recipient is admitted, a physician must certify periodically that continued nursing care is required. The number of days of coverage available to recipients in a nursing facility is not limited.

The Medicaid Nursing Facility Program provides for nursing services on two levels of care. Level I Nursing Facility (NF-1) services are provided to recipients who do not require an intensive degree of care. Level II Nursing Facility (NF-2) services, which must be under the direct supervision of licensed nursing personnel and under the general direction of a physician, represent a higher degree of care.

Lake City Health Care Center, LLC, Lake City, Tennessee, provides both NF-1 and NF-2 services. The facility is operated as a limited liability company. The ownership is as follows: Ronald E. Lawrence-86%, Carolyn B. Lawrence-10%, and Doris W. Henning-4%. Lake City Health Care Center, LP owns the building, land, and equipment. Lake City Health Care Center, LP is leased to

Lake City Health Care Center, LLC. The ownership of Lake City Health Care Center, LP is as follows: Ronald E. Lawrence-45%, Carolyn B. Lawrence-5%, Doris W. Henning-2%, and Lawrence Health Care, Inc.-48%.

During the examination period, the facility maintained a total of 146 licensed nursing facility beds. The Division of Quality Assurance of the Department of Health licensed the facility for these beds. Eligible recipients receive services through an agreement with the Department of Health. Of the 53,290 available bed days, 33,442 were for Medicaid NF-1 patients for the year ended June 30, 2002. Also, the facility reported total operating expenses of \$5,393,385 for the period.

The Division of Quality Assurance inspected the quality of the facility's physical plant, professional staff, and patient services. The nursing facility met the required standards.

The following Medicaid reimbursable rates were in effect for the period covered by this examination:

<u>Period</u>	<u>Level I NF (744-0360)</u>
July 1, 2001, to June 30, 2002	\$100.89
	<u>Level II NF (044-5259)</u>
July 1, 2001, to June 30, 2002	\$154.55

PRIOR EXAMINATION FINDINGS

The previous audit of Lake City Health Care Center, LLC, for the year ended June 30, 1988, contained the following findings:

1. Need to properly manage unrefunded credit balances
2. Nonallowable expenses included on the cost report
3. Failure to maintain a surety bond on patient trust fund

SCOPE OF THE EXAMINATION

Our examination covers certain financial-related requirements of the Medicaid Nursing Facility Program. The requirements covered are referred to under management's assertions specified later in

the Independent Accountant's report. Our examination does not cover quality of care, clinical, or medical provisions.



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765**

Independent Accountant's Report

December 11, 2003

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Mr. Manny Martins, Deputy Commissioner
Bureau of TennCare
729 Church Street, Fifth Floor
Nashville, Tennessee 37247

Ladies and Gentlemen:

We have examined management's assertions, included in its representation letter dated December 11, 2003, that Lake City Health Care Center, LLC complied with the following requirements during the cost report period July 1, 2001, through June 30, 2002, and to the facility's resident accounts for the period July 1, 2001, through June 30, 2002.

- Income and expenses reported on the Medicaid Cost Report are reasonable, allowable, and in accordance with state and federal rules, regulations, and reimbursement principles.
- Patient days reported on the Medicaid Cost Report have been counted in accordance with state regulations. Medicaid patient days billed to the state for periods when residents were hospitalized or on therapeutic leave are in accordance with the 15-day hospital stay rule, the 85 percent occupancy rule, and the 60-day therapeutic leave day rule.

- Charges to patients and charges to patients' personal funds are in accordance with state and federal regulations.

As discussed in management's representation letter, management is responsible for ensuring compliance with those requirements. Our responsibility is to express an opinion on management's assertions about the facility's compliance based on our examination.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants, and accordingly, included examining on a test basis, evidence about Lake City Health Care Center, LLC's compliance with those requirements and performing such other procedures as we considered necessary under the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Lake City Health Care Center, LLC's compliance with specified requirements.

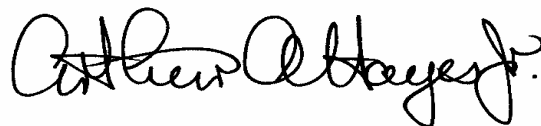
Our examination disclosed the following material noncompliance applicable to state and federal regulations:

- The facility improperly billed the Medicaid Program for noncovered hospital leave days.
- The facility included nonallowable expenses on the cost report.
- The facility needs to properly manage resident accounts.

In our opinion, except for the material noncompliance described above, management's assertions that Lake City Health Care Center, LLC complied with the aforementioned requirements for the cost reporting period July 1, 2001, to June 30, 2002, and for resident accounts for the period July 1, 2001, to June 30, 2002, are fairly stated in all material respects.

This report is intended solely for the use of the Tennessee General Assembly and the Tennessee Department of Finance and Administration. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes Jr.", with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA,
Director

AAH/pn

FINDINGS AND RECOMMENDATIONS

1. IMPROPER BILLING OF RESIDENT HOSPITAL LEAVE DAYS AND REVENUE

Finding

Lake City Health Care Center, LLC inaccurately accumulated resident days and improperly reported revenue on the “Medicaid Nursing Facility Level 1 Cost Report.” Additionally, the facility improperly billed the Medicaid Program for 2,065 hospital leave days when the facility was under 85% occupancy for the period July 1, 1999, through November 30, 2003.

Chapter 1200-12-1-.06(4)(b)1 of the *Rules of Tennessee Department of Finance and Administration* states, “A Level 1 nursing facility shall be reimbursed . . . for the recipient’s bed in that facility during the recipient’s temporary absence from that facility in accordance with the following . . . At least 85% of all other beds at the nursing facility are occupied at the time of hospital admission.”

As a result of inaccurate resident days and charges reported on the “Medicaid Nursing Facility Level 1 Cost Report,” Medicaid NF-1 days were overstated by 556 days, and Medicaid revenue was overstated by \$57,566 for the period July 1, 2001, through June 30, 2002.

The facility was overpaid \$152,379.52 for the 2,065 noncovered hospital leave days.

Recommendation

Lake City Health Care Center, LLC should not accumulate or bill the Medicaid Program for hospital leave days when the facility is operating under 85% occupancy. The TennCare Bureau should take necessary steps to recover the \$152,379.52 due to the State of Tennessee, which represents overpayments by the Medicaid Program as a result of the improper billing of hospital leave days.

Management’s Comment

Lake City Health Care Center, LLC recognizes the unintentional oversight of billing for hospital leave days when the facility was operating under 85% occupancy. Training has been provided to the staff regarding proper completion of the Turn Around Document, and periodic review by management will occur to help ensure accuracy.

2. NONALLOWABLE EXPENSES INCLUDED ON THE COST REPORT

Finding

Lake City Health Care Center, LLC included \$1,115.58 of unsupported expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the year ended June 30, 2002.

Chapter 1200-13-6-.09 of the *Rules of Tennessee Department of Finance and Administration* states, “Adequate financial records, statistical data, and source documents must be maintained for proper determination of costs under the program.” The rule further states, “Costs which are not necessary or related to patient care” should be deducted from allowable expenses.

As a result of the adjustment to allowable expenses and the adjustments referenced in Finding 1, the facility’s Medicaid reimbursable rate was decreased as follows:

<u>Period</u>	<u>Original Rate</u>	<u>Adjusted Rate</u>	<u>Difference</u>
July 1, 2003, through June 30, 2004	\$ 89.23	\$ 89.19	(\$ 0.04)

Overpayments made to the facility as a result of the above adjustments total \$1,337.68, computed from July 1, 2003, through June 30, 2004.

Recommendation

Lake City Health Care Center, LLC should include only allowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report.” All reported expenses should be adequately supported, related to patient care, and in compliance with other applicable regulations.

The facility should refund \$1,337.68, representing overpayments by the Medicaid Program, to the State of Tennessee as a result of the rate reduction computed from July 1, 2003, through June 30, 2004.

Management’s Comment

Lake City Health Care Center, LLC makes every effort to ensure adequate financial records are maintained; however, due to the high volume of transactions it is possible that an invoice is misplaced from time to time. We have reviewed the detail of the unsupported expenses listed in the audit workpapers. The \$1,115.58 of unsupported expenses relate to charges on the company’s American Express account. Management contends these expenses are valid; however, our records only provide a statement of account from American Express. In this case, the actual receipts were not attached to the statement.

Auditor's Conclusion

The \$1,115.58 of expenses could not be verified as allowable costs under the program without adequate documentation. In this case, detailed receipts are required.

3. DEFICIENCIES IN ACCOUNTING FOR THE RESIDENT TRUST FUND

Finding

Lake City Health Care Center, LLC failed to take adequate measures to safeguard resident trust funds as required by federal law. The facility lacked adequate documentation and/or proper authorization for withdrawals from the trust funds.

Paragraph 22,163.10(c) of the *Medicare and Medicaid Guide* requires the facility to “establish and maintain a system that assures a full and complete and separate accounting, according to generally accepted accounting principles, of each resident’s personal funds entrusted to the facility on the resident’s behalf.” In addition, *Tennessee Code Annotated*, Title 71-6-117, provides for penalties in cases where the improper use of funds paid by a government agency to an adult or to a caretaker for the adult’s use is shown to be willful.

Recommendation

Lake City Health Care Center, LLC should establish adequate procedures to ensure compliance with applicable laws and regulations relative to protection of resident trust funds. Proper controls over withdrawals should be maintained.

Management's Comment

Lake City Health Care Center, LLC maintains a resident trust fund on behalf of our residents. We believe adequate measures are now in place to safeguard resident trust funds. In some cases as noted, residents have withdrawn funds without signing a form to prove authorization of withdrawal. We are making every effort to ensure residents sign an authorization form each time funds are withdrawn. In certain cases, it may not be possible for a resident to sign an authorization of withdrawal form. The audit did find the trust fund to be in balance and charges handled in accordance with state and federal regulations.

SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS

Source of Overpayments

Improper billing of resident hospital leave days (see finding 1)	\$152,379.52
Nonallowable expenses included on the cost report (see finding 2)	<u>\$ 1,337.68</u>
Total	<u><u>\$153,717.20</u></u>

Disposition of Overpayments

Due to the State of Tennessee	<u><u>\$153,717.20</u></u>
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